

## Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08  
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02  
LAB-04 SIL-01 OMB-01 /087 W  
-----120197 060141Z /10

P 050904Z APR 78

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 6813

TREASURY/DEP WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

UNCLAS SECTION 01 OF 04 TOKYO 05716

USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - MARCH 30-  
APRIL 5

1. SUMMARY: YEN BREAKS 220 LEVEL AND THEN STEADIES.  
COMMENT, OFFICIAL AND UNOFFICIAL, DOMESTIC AND FOREIGN,  
SEES END TO YEN APPRECIATION. BERGSTEN JAPAN SOCIETY  
SPEECH OVERSHADOWED BY PRESS CONFERENCE COMMENTS. PRESI-  
DENTIAL STATEMENT ON U.S. FEB TRADE DEFICIT WELCOMED.  
JAPAN'S OFFICIAL FOREX RESERVES RISE OVER \$5 BIL IN MARCH  
TO \$29.2 BIL LEVEL. FINANCE MINISTER MURAYAMA SEES MARCH  
TIGHTENING OF FOREX CONTROLS AS HELPFUL BUT AVERS INTEN-  
TION TO TIGHTEN FURTHER. BOJ GOV MORINAGA DISCLAIMS  
INTENT TO UNDERTAKE FORWARD MARKET INTERVENTION. PRIMIN  
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EXPRESSES RESERVATION ABOUT TARGET ZONES FOR EXCHANGE  
RATES -- NOW. PRIMIN REAFFIRMS INTENT TO SEEK TO ACHIEVE  
7 PCT GROWTH TARGET DESPITE APPRECIATION. HINTS ACCUMU-  
LATE THAT INDUSTRY MAY BE BETTER ABLE TO COPE WITH YEN  
APPRECIATION THAN EARLIER DOOMSAYERS EXPECTED BUT VOICES  
CALLING FOR PASSING ON BENEFITS OF APPRECIATION TO CON-  
SUMERS BECOME LOUDER. MORE SURPLUS REDUCTION MEASURES

EXPECTED AT INTER-MINISTERIAL CONFERENCE PROBABLY SOME-TIME NEXT WEEK. FOREIGN INVESTORS SHIFT ATTENTION TO JAPANESE STOCKS. FY 78 BUDGET APPROVED BY DIET. MOF COMPLETES IMPLEMENTATION OF 12-POINT FOREIGN EXCHANGE CONTROL LIBERALIZATION-SIMPLIFICATION PROGRAM. INDUSTRIAL PRODUCTION DECLINES IN FEB BUT SHIPMENTS REMAIN UNCHANGED. TOKYO CPI IN MARCH UP 4.8 PCT OVER YEAR EARLIER. END SUMMARY.

2. THE PAST WEEK AGAIN BROUGHT SUBSTANTIAL ACTIVITY IN THE FOREIGN EXCHANGE MARKET. FROM THE 225 LEVEL A WEEK AGO (TUES MARCH 28), THE YEN ROSE TO A NEW HIGH OF 218.20 AT THE CLOSE MONDAY, APRIL 3, WITH THE BIG RISE BEING AN OVER FIVE YEN INCREASE ON MONDAY. SUBSEQUENTLY, THE YEN WEAKENED TO 218.35 AT THE CLOSE YESTERDAY (TUES APRIL 4), AND IN MORNING TRADING TODAY (WED APRIL 4) THE YEN FELL BACK FURTHER WITH THE CENTRAL RATE BEING 219.30. TRADING VOLUMES OVER THE PAST WEEK, WHILE STILL ABOVE NORMAL, SUGGEST A MUCH LESS HECTIC MARKET THAN IN THE PRECEDING WEEK.

3. THE LATEST YEN SURGE HAS BEEN ACCOMPANIED BY A FULL MEASURE OF OFFICIAL AND UNOFFICIAL COMMENT. ALTHOUGH SOME UNIDENTIFIED GOVT OFFICIALS APPARENTLY SOUGHT TO RESURRECT THE IDEA THAT THE BANK OF JAPAN WOULD DRAW THE LINE AT 220 YEN TO THE DOLLAR, STATEMENTS BY GOV MORINAGA UNCLASSIFIED

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AND UNIDENTIFIED BOJ OFFICIALS CARRYING THE MESSAGE THAT THE YEN RATE SHOULD BE LEFT PRIMARILY TO SUPPLY AND DEMAND IN THE MARKET HAVE RECEIVED THE MOST PLAY. FOR EXAMPLE, GOV MORINAGA ON MARCH 29 AND AGAIN APRIL 3 MADE SUCH STATEMENTS (WHILE AFFIRMING THAT THE BOJ WOULD CONTINUE TO RESIST ERRATIC FLUCTUATIONS). THERE CONTINUED TO BE SOME SPECULATION THAT THE BOJ WAS CONCERNED ABOUT THE DOMESTIC INFLATIONARY IMPACT OF INTERVENTION IN THE FOREX MARKET AND GOV MORINAGA, APPARENTLY TRYING TO ASSUAGE SUCH CONCERNS, TOLD THE DIET ON APRIL 1 THAT THE BOJ HAD BEEN WATCHING MOVEMENTS IN THE MONEY SUPPLY CAREFULLY IN ORDER TO PREVENT A RESURGENCE OF INFLATION DUE TO INTERVENTION. OTHER NOTEWORTHY COMMENTS ABOUT THE MARKET EMANATED FROM ECONOMIC PLANNING AGENCY DIRECTOR GENERAL MIYAZAWA, WHO REPORTEDLY SAID THAT YEN APPRECIATION HAS BEEN UNUSUALLY RAPID, PARTLY DUE TO SEASONAL FACTORS, AND THAT HE EXPECTED THAT IT IS ABOUT TIME THAT THE MARKET BEGAN TO FEEL THAT THE YEN HAD APPRECIATED ENOUGH. THERE IS ALSO REPORTED A MORINAGA STATEMENT THAT HE HOPED THE YEN WOULD NOT GO UP ANY FURTHER. UNIDENTIFIED FINANCE MINISTRY SOURCES ARE ALSO REPORTED AS EXPECTING THAT FURTHER RAPID APPRECIATION OF THE YEN CAN BE AVOIDED, ALTHOUGH RECOGNIZING THAT THE

JAPANESE CURRENCY WILL REMAIN BASICALLY STRONG. OTHER COMMENTS WHICH RECEIVED ATTENTION HERE INCLUDE THOSE OF FORMER TREASURY SECRETARY SIMON, WHO IS SAID TO HAVE TOLD A NIHON KEIZAI REPORTER THAT THE YEN HAD ALMOST REACHED A CEILING AND THAT U.S. ECONOMIC POLICY IS RESPONSIBLE FOR WEAKNESS OF THE DOLLAR. IN THE HEADLINES AT LEAST, FORMER TREASURY UNDER SECRETARY YEO IS ALSO BILLED AS PLACING RESPONSIBILITY ON U.S. FOR WEAKNESS OF THE DOLLAR. BROOKINGS ECONOMIST KRAUSE ALSO GOT HEADLINES FOR HIS REPORTED PREDICTION THAT THE YEN WOULD FALL BACK TO A

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-05 H-02

INR-10 L-03 NSAE-00 NSC-05 PA-02 SP-02 SS-15

ICA-20 AID-05 COME-00 EB-08 FRB-01 XMB-04 OPIC-06

LAB-04 SIL-01 OMB-01 /119 W

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P 050904Z APR 78

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 6818

TREASURY/DEP WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

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REASONABLE LEVEL IN THE NEAR FUTURE.

4. ASST SECRETARY BERGSTEN'S SPEECH TO THE JAPAN SOCIETY ALSO RECEIVED CONSIDERABLE ATTENTION IN THE JAPANESE PRESS, ALTHOUGH EVEN MORE ATTENTION WAS FOCUSED ON HIS REMARKS THE SAME DAY TO JAPANESE CORRESPONDENTS. RATHER PRE-DICTABLY, THE JAPANESE PRESS TENDED TO INTERPRET BERGSTEN'S MAIN POINTS AS BEING THAT THE SHARP RISE IN THE YEN WAS DUE TO JAPAN'S LARGE-SCALE CURRENT ACCOUNT SURPLUS, THAT THE U.S. HAD NO INTENTION OF DRAWING ON THE FRB/BOJ SWAP TO INTERVENE IN YEN, AND THAT TARGET ZONES ARE NOT FEASIBLE.

5. A GREAT DEAL OF ATTENTION WAS OF COURSE FOCUSED ON

RELEASE OF THE U.S. FEB TRADE FIGURES AND THE SPECIAL  
PRESIDENTIAL STATEMENT AFTER THE RELEASE. APPARENTLY  
REFLECTING MOF AND BOJ BACKGROUNDING, THE PRESS INTER-  
PRETED THE PRESIDENT'S STATEMENT AS A WELCOME SIGN THAT THE  
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U.S. ITSELF WAS GENUINELY CONCERNED ABOUT THE DOLLAR.

6. THE TOKYO FOREX MARKET TOOK IN STRIDE THE ANNOUNCEMENT  
APRIL 3 THAT JAPAN'S OFFICIAL INTERNATIONAL RESERVES ROSE  
OVER \$5 BIL IN MARCH TO REACH THE \$29.2 BIL LEVEL. MOF  
SOURCES MENTIONED TO THE PRISS TWO SPECIAL FACTORS AFFECT-  
ING THE MARCH RESERVE INCREASE. ONE WAS THE TRANSFER OF  
ABOUT \$90 MIL EQUIVALENT IN GOLD FROM A SPECIAL (NON-  
RESERVE) TREASURY ACCOUNT TO THE OFFICIAL FOREIGN EXCHANGE  
RESERVES (AS HAD BEEN ANTICIPATED BY AN ANNOUNCEMENT  
EARLY LAST YEAR). SECOND WAS AN INCREASE IN OFFICIAL  
FOREIGN CURRENCY DEPOSITS WITH THE COMMERCIAL BANKS OF  
ABOUT \$0.5 BIL, IN CONJUNCTION WITH THE EXPANSION OF  
IMPORT CREDIT AVAILABILITY FORESEEN IN THE STRAUSS-USHIBA  
STATEMENT.

7. IN THE DIET APRIL 3 FINANCE MINISTER MURAYAMA  
REITERATED THAT HE HAD NO INTENTION OF TIGHTENING FOREX  
CONTROLS TO STEM SPECULATIVE CAPITAL INFLOWS AND WENT ON TO  
SAY THAT THE ACTIONS TAKEN IN MID-MARCH WERE HAVING AN  
ADEQUATE EFFECT IN CURBING SUCH INFLOWS. MURAYAMA SAID  
THAT INFLOWS INTO YEN-DENOMINATED BONDS, WHICH HAD BEEN  
HIGH PRIOR TO MID-MARCH, HAD NOW VIRTUALLY CEASED. HE  
ADMITTED, HOWEVER, THAT FREE YEN DEPOSITS WERE STILL  
INCREASING, DESPITE THE CONTROLS, BUT DENIED THAT THIS WAS  
THE CAUSE OF THE RECENT YEN APPRECIATION.

8. SOME INTEREST HAS BEEN RUMORED IN BOJ INTERVENTION IN  
THE FORWARD EXCHANGE MARKET. ON MARCH 30 BOJ GOV  
MORINAGA TOLD THE DIET THAT FORWARD MARKET INTERVENTION IS  
TECHNICALLY DIFFICULT, CITING GERMAN AND UK DIFFICULTIES  
IN THE PAST.

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9. PRIMIN FUKUDA APPARENTLY PLACED A LITTLE DISTANCE  
BETWEEN HIMSELF AND THE MIYAZAWA PLAN THIS WEEK. HE IS  
REPORTED AS HAVING TOLD THE DIET THAT INADEQUATELY  
PREPARED TARGET ZONES WOULD BECOME TARGETS FOR SPECULATION  
AND WOULD ONLY INCREASE CONFUSION.

10. CONTINUED APPRECIATION OF THE YEN HAS REFUELED THE DEBATE ON THE EFFECT OF YEN APPRECIATION ON THE 7 PCT GROWTH TARGET. ON APRIL 3 PRIMIN FUKUCA IS REPORTED TO HAVE TOLD THE UPPER HOUSE THAT IT WOULD BE SHORTSIGHTED TO REVISE THE GROWTH TARGET JUST BECAUSE THE RECENT SHARP APPRECIATION OF THE YEN MAKES IT DIFFICULT TO ACHIEVE THE TARGET. RATHER, HE IS QUOTED AS SAYING, IF NECESSARY THE GOJ WILL TAKE ALL POSSIBLE MEASURES TO ACHIEVE THE TARGSP. MINISTER MIYAZAWA IS REPORTED AS SAYING THAT HE DID NOT CONSIDER IT WOULD BE DIFFICULT TO ACHIEVE THE 7 PCT GROWTH TARGET WITHOUT ADDITIONAL MEASURES TO STIMULATE CONSUMER SPENDING. THE PRESS HAS PRESENTED THIS STATEMENT AS CONTRAST

G WITH PREVIOUS MIYAZAWA STATEMENTS THAT INADEQUATE CONSUMER SPENDING WOULD HINDER ACHIEVING THE 7 PCT GROWTH TARGET.

11. AN INTERESTING STRAIN IN SOME PRESS REPORTS SUGGESTS THAT JAPANESE INDUSTRY WILL BE ABLE TO COPE BETTER THAN HAD BEEN EXPECTED WITH YEN APPRECIATION. A FREQUENTLY ACCOMPANYING THEME IS THAT IF YEN APPRECIATION IS TO BE ACCEPTED, THE BENEFITS OF YEN APPRECIATION MUST BE PASSED ALONG TO THE CONSUMER. THE LATTER IS NOT A NEW THEME BUT IS COMING THRU WITH GREATER FORCE. BOJ GOV MORINAGA PUBLICLY CALLED FOR PRICE REDUCTIONS TO REFLECT APPRECIATION IN GOVT-REGULATED INDUSTRIES SUCH AS GAS AND ELECTRICITY AND WHERE GOVT IMPORT MONOPOLIES EXIST. ALTHOUGH SOME PRICE FREEZES HAVE ALREADY BEEN NEGOTIATED (FOR EXAMPLE, A TWO-YEAR FREEZE IN SOME ELECTRICITY RATES), UNCLASSIFIED

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SUGGESTIONS FOR PRICE REDUCTIONS APPARENTLY WENT TOO FAR, AND BOTH MINISTER MIYAZAWA AND MINISTER MURAYAMA, AS WELL AS A HIGH MITI OFFICIAL WERE REPORTED AS REACTING NEGATIVELY TO THE MORINAGA PROPOSAL.

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-05 H-02  
INR-10 L-03 NSAE-00 NSC-05 PA-02 SP-02 SS-15  
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P 050904Z APR 78

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 6817

TREASURY/DEP WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

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12. RUMORS HAVE BEEN CIRCULATING ON ANOTHER PACKAGE OF SURPLUS-REDUCTION MEASURES EXPECTED TO BE ANNOUNCED AT UPCOMING MINISTERIAL COUNCIL MEETING. ON APRIL 4 MIYAZAWA TOLD THE PRESS THAT EMERGENCY IMPORTS IN FY 78 (APRIL 78-MAR 79) WILL AMOUNT TO \$4 BIL, REPORTEDLY ADDING THAT THIS \$4 BIL WAS NOT HIS DREAM BUT A REALISTIC TARGET. MIYAZAWA ALSO ADDED THAT EMERGENCY IMPORTS SHOULD BE ACCELERATED DURING FIRST HALF OF THE YEAR, SETTING A TARGET OF \$1 BIL OR MORE FOR THE CURRENT APRIL-JUNE QUARTER. MIYAZAWA, HOWEVER, AT HIS APRIL 4 PRESS CONFERENCE, MADE NEGATIVE COMMENTS TOWARD THE MITI PROPOSAL FOR AN ESTABLISHMENT OF A SECOND FOREIGN EXCHANGE FUND. MITI MINISTER KOMOTO HAD SUGGESTED TO THE DIET MARCH 29 POSSIBLE ESTABLISHMENT OF THE SECOND FOREIGN EXCHANGE SPECIAL ACCOUNT, WHICH WOULD UTILIZE JAPAN'S INTERNATIONAL RESERVES TO FINANCE STOCKPILE PROGRAMS. MIYAZAWA, HOWEVER, SAID IMMEDIATE MEASURES SHOULD BE LIMITED TO THOSE WHICH WILL NOT REQUIRE INTRODUCTION OF NEW LEGISLATION OR SUPPLEMENTARY BUDGETS. UNCLASSIFIED

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MIYAZAWA, ON THE OTHER HAND, ADVOCATED REVISION OF THE EXISTING EMERGENCY-IMPORT FOREIGN-CURRENCY LOAN SYSTEM. THE MINISTERIAL COUNCIL WAS ONCE TO BE HELD LATE THIS WEEK, BUT KOMOTO AND MIYAZAWA HAVE INDICATED FURTHER DELAY UNTIL SOMETIME NEXT WEEK IS LIKELY.

13. FOREIGN INVESTORS HAVE APPARENTLY BEEN SHIFTING INTO JAPANESE STOCKS SINCE THE SUSPENSION OF FOREIGN PURCHASES OF MANY JAPANESE BONDS, EFFECTIVE IN MID-MARCH. ACCORDING TO NIHON KEIZAI DATED APRIL 1, FOREIGN PURCHASES OF JAPANESE STOCKS ARE ESTIMATED TO HAVE AMOUNTED TO YEN 140 BIL (\$640 MIL APPROX) IN MARCH, TWICE

AS LARGE AS IN FEB. FOREIGN INVESTMENT IN JAPANESE STOCKS HAD BEEN VERY STAGNANT IN THE PAST TWO YEARS, WITH NET FOREIGN SALES DOMIBATING.

14. ON TUES, APRIL 4, THE FY 78 BUDGET RECEIVED FINAL DIET APPROVAL WITH SPENDING, REVENUE, AND PROJECTED BORROWING UNCHANGED FROM THE ORIGINAL GOVT PROPOSALS OF 34.3 TRILLION YEN, 23.3 TRIL YEN, AND 11.0 TRIL YEN, RESPECTIVELY. (THE YEN 300 BIL TAX CUT AGREED WITH OPPOSITION PARTIES WILL BE HANDLED BY SEPARATE LEGISLATION.) AS PART OF ITS ECONOMIC STIMULUS EFFORTS, THE GOVT HAS ALREADY AGREED UPON SETTING A GOAL OF CONTRACTING FOR 70 PCT OF ALL BUDGETED PUBLIC WORKS PROGRAMS DURING THE FIRST SIX MONTHS OF FY 78. RUMORS HAVE BEEN CIRCULATING THAT THIS YEAR'S TARGET WILL BE RAISED TO MATCH LAST YEAR'S OBJECTIVE OF 73 PCT. MOF ON APRIL 3 ESTIMATED THAT TAX REVENUES FOR THE FY 77 (APRIL 77-MARCH 78) WOULD BE CLOSE TO THE YEN 17.1 TRIL FORECAST IN THE FINAL SUPPLEMENTAL BUDGET. TAX REVENUES FOR FY 77 WERE ORIGINALLY ESTIMATED AT YEN 18.2 TRIL BUT REVISED DOWNWARD TWICE BY A TOTAL OF 6.1 PCT.

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15. THE MOF COMPLETED IMPLEMENTATION OF A 12-POINT PROGRAM OF LIBERALIZATION AND/OR SIMPLIFICATION OF JAPAN'S FYREIGN EXCHANGE CONTROLS, EFFECTIVE APRIL 1, AS FORESEEN IN THE STRAUSS-USHIBA JOINT STATEMENT. EXCEPT FOR MINOR CHANGES, THE PACKAGE ANNOUNCED APRIL 1 IS ESSENTIALLY AS ANNOUNCED BY THE GOJ ON JAN 26 THIS YEAR. RECALL THAT OUT OF THE 12 POINTS IN THE PACKAGE, RELAXATION OF THE STANDARD METHOD OF SETTLEMENT FOR IMPORTS AND EXTENSION OF THE TERMS OF IMPORT USANCE CREDITS HAVE ALREADY BEEN IMPLEMENTED, EFFECTIVE MARCH 1. (TOKYO 05526)

16. THE PRELIMINARY INDEX OF JAPAN'S INDUSTRIAL PRODUCTION S.A., FELL 0.6 PCT IN FEB, FOLLOWING THE STRONG INCREASES IN THE PRECEDING THREE MONTHS. THE LEVEL OF PRODUCERS' SHIPMENTS REMAINED UNCHANGED WHILE INVENTORIES DECLINED 1.2 PCT. THE RATIO OF INVENTORIES TO SHIPMENTS DECLINED FOR THE FOURTH STRAIGHT MONTH IN FEB. (TOKYO 5138)

17. TOKYO CONSUMER PRICE INDEX, N.S.A., ROSE 0.8 PCT IN MARCH, RECORDING THE THIRD STRAIGHT MONTH OF ADVANCE. MARCH 78 YEAR-OVER-YEAR PCT INCREASE ACCELERATED TO 4.8 PCT FROM 4.4 PCT IN FEB. (TOKYO 05597)

18. SECONDARY MARKET BOND YIELDS SHOWED A MIXED PICTURE IN MARCH. YIELDS ON GOVT BONDS AND INDUSTRIAL BONDS DECLINED DURING THE MONTH WHILE YIELDS ON TELEPHONE AND

TELEGRAM BONDS (NTT BONDS) ROSE FOR THE SECOND MONTH  
RUNNING. AS REPORTED (TOKYO 5135), GENERAL DOWNWARD  
REVISIONS OF JAPAN'S INTEREST RATES HAVE BEEN IMPLEMENTED  
RECENTLY FOLLOWING THE 0.75 PERCENTAGE POINT CUT IN THE  
OFFICIAL DISCOUNT RATE, EFFECTIVE MARCH 16. THE YIELD TO  
SUBSCRIBERS ON TEN-YEAR GOJ BONDS HAS BEEN REDUCED BY  
0.503 PERCENTAGE POINTS TO 6.180 PCT PER ANNUM WHILE THE  
INDUSTRIAL BOND YIELD (10-YEAR, AA-RATED) HAS BEEN LOWERED  
BY 0.344 PERCENTAGE POINTS TO 6.381 PCT, BOTH EFFECTIVE  
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WITH APRIL ISSUES. THE NTT BOND YIELD TO SUBSCRIBERS HAS  
REMAINED UNCHANGED.  
SECONDARY MARKET BOND YIELDS, END OF MONTH

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INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-05 H-02  
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ICA-20 AID-05 COME-00 EB-08 FRB-01 XMB-04 OPIC-06  
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P 050904Z APR 78  
FM AMEMBASSY TOKYO  
TO SECSTATE WASHDC PRIORITY 6819  
TREASURY/DEP WASHDC PRIORITY  
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(ANNUAL RATE, IN PCT)

- TEL AND TEL INDUSTRIAL  
- GOVT BONDS BONDS BONDS



JAN	6.14L	6.510	6.998
FEB	6.206	6.593	7.151
MAR	6.038	6.643	7.088
MANSFIELD			

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## Message Attributes

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**Secure:** OPEN  
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**Subject:** FINANCIAL AND ECONOMIC DEVELOPMENTS - MARCH 30- APRIL 5  
**TAGS:** EFIN, JA  
**To:** STATE TRSY  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/64a45cb5-c288-dd11-92da-001cc4696bcc  
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